



## Treasury Inspector General for Tax Administration

### **ALTHOUGH STRONG EFFORTS WERE MADE, A SIGNIFICANT AMOUNT OF THE TELEPHONE EXCISE TAX OVERCOLLECTED FROM INDIVIDUAL TAXPAYERS MAY NEVER BE REFUNDED**

Issued on September 26, 2007

## Highlights

Highlights of Report Number: 2007-30-178 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

### **IMPACT ON TAXPAYERS**

The Internal Revenue Service (IRS) estimated between 145 million and 165 million individual taxpayers would be eligible to claim the Telephone Excise Tax Refund (TETR). Because the IRS had collected approximately \$8 billion in telephone excise tax from individual taxpayers, it had a goal to return as close to this amount as possible while minimizing the total refunds made above this amount. TIGTA believes a significant amount of the telephone excise tax collected could go unrefunded, and many taxpayers may still be eligible to file claims.

### **WHY TIGTA DID THE AUDIT**

This audit was conducted at the request of the Deputy Commissioner for Services and Enforcement. The objective of the review was to determine whether the IRS was taking proper steps to facilitate the refunding of the Federal excise tax on toll telephone services.

### **WHAT TIGTA FOUND**

With some exceptions, the IRS successfully planned and implemented the TETR program. Its efforts included revising tax forms, developing strategies to educate taxpayers, and developing methods and new forms for taxpayers to claim either a standard amount or actual excise taxes paid. One of the forms developed could be used to claim the credit by those not normally required to file an individual tax return. Despite these efforts, much of the overcollected tax may go unclaimed and unrefunded. The IRS informed us on August 6, 2007, that just over one-half of the \$8 billion has been refunded. TIGTA believes two important factors contributed to these conditions: (1) the standard amount was very popular and (2) many taxpayers were uninformed about the TETR.

Early in the audit, TIGTA determined certain processing controls needed strengthening to ensure taxpayers claiming amounts greater than one of the standard amounts included required documentation, and performance data reported by the IRS regarding TETR was not always accurate. Upon notification, the IRS took action to address these issues.

Erroneous claims often went unchallenged by the IRS. Many taxpayers may have claimed refunds of the total amounts of their telephone bills, possibly due to misunderstanding the Credit For Federal Telephone Excise Tax Paid (Form 8913), which was not focus tested to ensure taxpayers understood it. Other taxpayers and preparers may have intentionally overstated their claims. The IRS did not scrutinize many of these claims because of competing priorities to examine other issues on tax returns. Although TIGTA recommended during the audit that the IRS reexplore all options at its disposal to address significantly more inappropriate TETR claims, including sending notices offering taxpayers the opportunity to self-correct their returns, the IRS determined that no action was practical. TIGTA disagrees.

Finally, more than 26,000 taxpayers would unnecessarily receive a Tax Year 2007 tax package as a result of their TETR claims. These unnecessary packages would cost the IRS additional resources to send and cause taxpayers burden.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended the IRS identify demographics that had relatively low rates of TETR claims and provide additional information to these taxpayers on how they might still claim the refund, evaluate its outreach methods and determine what was and what was not effective, and use the information gained from the evaluation to develop more effective outreach programs in the future. TIGTA also recommended the IRS ensure new forms are focus tested on some level before issuance and the IRS follow up to ensure tax packages are not unnecessarily sent to taxpayers.

In their response to the report, IRS officials agreed with these recommendations. IRS management initiated efforts to use demographics to focus outreach on certain taxpayer populations and identified "lessons learned" to develop outreach strategies for future initiatives. Management agreed to assess the need for new forms to be focus tested and agreed to suppress the mailing of unnecessary tax packages to taxpayers.

### **READ THE FULL REPORT**

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200730178fr.pdf>.

Email Address: [Bonnie.Heald@tigta.treas.gov](mailto:Bonnie.Heald@tigta.treas.gov)  
Web Site: <http://www.tigta.gov>

Phone Number: 202-927-7037